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Vienna, 23-25 June 1999
Item 4 (j) of the provisional agenda

Programme and Budget Committee

Fifteenth session resumed
Vienna, 23 June 1999
Agenda item 2

IMPLICATIONS OF THE EURO FOR UNIDO

Note by the Secretariat

1. At its fifteenth session, the Committee adopted conclusion 99/1, in which it decided to add an item to the agenda of its fifteenth session entitled "Implications of the euro for UNIDO", to be the sole item of discussion at a resumed session on 23 June 1999.

2. A memorandum on that subject has been submitted by the European Union, as contained in the annex to the present document.

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

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Annex

European Union

MEMORANDUM

Concerning: Adoption of the euro by UNIDO

1. A particularity of UNIDO is that it is a United Nations specialized agency which has its headquarters in a country belonging to the euro zone and uses dollars in its accounting. For this reason, the European Union wishes to initiate a study process with a view to the tabling of a request that a budget and accounts system based on the euro alone be put in place. In this respect, the Programme and Budget Committee (PBC) has adjourned its fifteenth session and added to its agenda a specific item: "Implications of the euro for UNIDO". It can be recalled that Latin Union member countries have adopted the euro as the accounting currency as from January 1, 1999, basing this decision on Article 109 G of the Treaty on the European Union (TEU) and European Union regulation 1103/97.

2. From the point of view of the European Union, the adoption of the euro is justified by the following reasons:

(a) The use of the euro in international transactions: The third stage of Economic and Monetary Union began on January 1 1999, in accordance with Article 109 J, paragraph 4, of the Treaty on the European Union. The Austrian schilling thus becomes no more than a subdivision of the euro, by which it will be definitively replaced as from January 1, 2002 (Article 3 of regulation 974/98 of May 3, 1998);

(b) The use of the euro within the Organization: UNIDO uses the schilling for 82 per cent of its routine transactions, notably to pay staff salaries. Through the modifications of the appropriate staff rules (or regulations)[1], the proportion of transactions in United States dollars could even be substantially reduced;

(c) Simplification of procedures and promotion of the euro: The adoption of a contribution payment system and an accounting structure based on just one currency is a factor for simplification for the Organization. It would make its accounts easier to read in addition to making it possible to prepare well in advance for a process which has now become inescapable;

(d) Security of currency conversions: At the present time, when a contribution is paid, the contributing country is exposed to an exchange risk if it pays in dollars, or even in schillings if it is not a member of the euro zone.

3. Outside the euro zone, the 14 countries of the franc area should also benefit from a switch to the single currency for the payment of their contributions, insofar as the CFA franc has the benefit of fixed parity with the euro. The use of the euro by UNIDO in that area will send out a signal which will help strengthen the institutional framework and the attractiveness for private investors of this region of the world. The same applies for Bosnia and Herzegovina, since it has a fixed parity with the German mark.

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[1] *Under the existing rules, P-level and D-level staff may choose to be paid partially in US dollars. This rule could be changed to limit this faculty to field staff for whom UNIDO is compelled to use US dollars to pay the salaries. Negotiations with the UN pension fund could also probably lead to further reductions of the disbursements in US dollars.*

4. The European Union has thus identified the articles of the financial regulations which should be modified for this purpose: they are regulations 3.2[ii], 5.1 (d)[iii], 5.5 (d) and (e)[iv] and regulation 10.5[v], which would be amended to read as follows:

Financial regulation	**Proposed amended text**
3.2	The financial estimates shall cover income and expenditures for the fiscal period to which they relate and shall be presented in euros.
5.1 (d)	Each assessment shall be established in euros.
5.5 (d)	Advances to the Working Capital Fund shall be assessed and paid in euros.
5.5 (e)	Contributions to the regular budget are established and paid in euros.
10.5	The accounts of the Organization shall be presented in euros.

5. A number of technical modifications will in fact be necessary:

(a) For the countries with arrears, it will be necessary to fix the part of arrears payable in dollars (the arrears accumulated after the adoption of the euro will be payable in that new currency).

(b) Other aspects must also be taken into account: rules for currency conversion and rounding off, definition of thresholds and "round" figures following automatic schilling/euro conversion, changes to computing systems (which will need prior testing) and the continuity of international agreements and contracts entered into by the Organization (contracts expressed in the currency of a Member State or in ECUs and governed by the laws of a State outside the European Union).

6. By doing so, the European Union wishes to stress the following:

(a) Its proposal does not concern the operational budget and the payment of voluntary contributions, which, as before, will be done in the currency chosen by the donor country: technical cooperation programmes will not be affected by the adoption of the euro;

(b) Likewise, the objective of this proposal is not to affect the possibility of authorizing the payment of contributions in local currency for the countries which accumulated arrears, since the intent is to determine a general rule which could be changed for specific purposes;

[ii] *Regulation 3.2*: "The financial estimates shall cover income and expenditures for the fiscal period to which they relate and shall be presented in United States dollars."

[iii] *Regulation 5.1 (d)*: "Each assessment shall be established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference, upon recommendation of the Director-General, to be linked to these two currencies."

[iv] *Regulation 5.5 (d)*: "Advances to the Working Capital Fund shall be assessed and paid in United States dollars."
Regulation 5.5 (e): "Contributions to the regular budget are established in United States dollars and Austrian schillings in the ratio determined in accordance with regulation 5.1 (d). Payments may be made in either or both of these currencies provided that any payment shall be credited on a pro-rata basis to the dollar and schilling obligation at the United Nations accounting rate of exchange in effect at the time the payment is received."

[v] *Regulation 10.5*: "The accounts of the Organization shall be presented in United States dollars. Accounts and accounting records may, however, be kept in such currency or currencies as the Director-General may deem necessary."

(c) The European Union thinks it is necessary to proceed to the changes at the eighth session of the General Conference in 1999. It would in fact be difficult for the Secretariat to prepare the budgetary documents for the 2002-2003 biennium efficiently, if, in the meantime, a euro-based system were under consideration. By taking a decision in 1999 that will apply in 2002, the General Conference allows the Secretariat to adapt itself in time.

7. As a conclusion, the European Union invites the Programme and Budget Committee to consider recommending to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the replacement of the Austrian schilling by the euro in accordance with article 3 of European Union regulation 974/98;

"(b) Recommends to the General Conference at its eighth session the adoption of a single-currency system of assessment based on the euro, for the fiscal period 2002-2003 and in future bienniums;

"(c) Requests the Director-General to report to the Board at its twenty-third session, through the Programme and Budget Committee, on the implications of the present decision, including the required amendments to the financial and staff regulations and rules;

"(d) Requests the Programme and Budget Committee at its seventeenth session to propose to the Industrial Development Board a determination of the amount of arrears to be established in United States dollars for the period prior to 1 January 2002;

"(e) Encourages the Director-General to promote the use of the euro for the transactions of the Organization."